SCG Packaging Pcl (SCGP TB) - HOLD, Price Bt51.75, TP Bt56.00

Results Comment

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2Q22 below expectation

- SCGP reported 2Q22 net profit of Bt1,856m (EPS Bt0.43/sh). Excluding items, core profit was Bt1,906m (core EPS Bt0.44/sh), -17% y-y but up 11% q-q. While core profit showed q-q improvement as expected, the result was below our expectation on high SG&A and transportation cost. Still, we think the worst of cost pressure is over and, given sharp share price pullback YTD, we will revisit our recommendation.
- **Overview:** Revenue grew 27% y-y and 4% q-q to Bt37.98bn. This was driven by both packaging and fibrous (printing & writing paper) chains. EBITDA margin was 14%, roughly unchanged from 1Q22 but down from 19% a year ago. We think this was due mainly to the impact of cost increases and partially offset by rising ASP.
- **Integrated Packaging:** Revenue from packaging was Bt31.8bn, +27% y-y and +3% q-q due mostly to product price adjustment and consolidation of newly acquired assets. EBITDA was Bt3.88bn (-9% y-y and q-q); adjusting for extra earn-out provision related to a Vietnamese acquisition, we estimate EBITDA would have been flat q-q.
- **Fibrous chain:** Fibrous chain saw revenue growth of 31% y-y and 13% q-q. EBITDA was Bt1.25bn (+8% y-y, +96% q-q). EBITDA margin was 18%, increasing significantly from just 10% in 1Q22 but down from 22% in 2Q21. The q-q margin expansion was due to higher P&W margin, improvement in pulp business and lower freight costs.
- **Non-operating items:** SCGP booked Bt346m gain from FX and derivatives, offset by Bt10m cost related to M&A and Bt386m extra expense from earn-out provision mentioned above.

Income Statement					(consolidated)
Yr-end Dec (Bt m)	**2Q21**	**3Q21**	**4Q21**	**1Q22**	**2Q22**
Revenue	29,895	31,930	35,144	36,634	37,982
Gross profit	**6,336**	**5,514**	**4,274**	**6,345**	**6,679**
SG&A	2,922	3,372	3,311	3,990	3,823
Operating profit	3,414	2,142	963	2,355	2,856
EBITDA	**5,346**	**4,326**	**3,262**	**4,655**	**5,267**
Other income	242	192	1,390	296	262
Other expense	0	0	0	0	0
Interest expense	307	283	329	286	311
Profit before tax	**3,349**	**2,051**	**2,023**	**2,365**	**2,807**
Income tax	620	407	480	316	541
Equity & invest. income	7	18	10	8	20
Minority interests	(450)	(272)	(195)	(334)	(380)
Extraordinary items	(24)	391	758	(64)	(50)
Net profit	**2,263**	**1,781**	**2,116**	**1,658**	**1,856**
Normalized profit	**2,287**	**1,390**	**1,358**	**1,722**	**1,906**
EPS (Bt)	0.53	0.41	0.49	0.39	0.43
Normalized EPS (Bt)	0.53	0.32	0.32	0.40	0.44

Income Statement			6M as		
(Bt m)	**q-q%**	**y-y%**	**% 2022F**	**2022F**	**2023F**
Revenue	4	27	55	135,633	138,007
Gross profit	**5**	**5**	**45**	**28,962**	**33,537**
SG&A	(4)	31	49	15,834	16,700
Operating profit	21	(16)	40	13,129	16,837
EBITDA	**13**	**(1)**	**46**	**21,438**	**25,189**
Other income	(12)	8	41	1,356	1,380
Other expense			na	0	0
Interest expense	9	1	35	1,720	1,714
Profit before tax	**19**	**(16)**	**41**	**12,766**	**16,504**
Income tax	71	(13)	45	1,915	2,476
Equity & invest. income	155	180	na	0	0
Minority interests	na	na	32	(2,216)	(2,865)
Extraordinary items	na	na	na	0	0
Net profit	**12**	**(18)**	**41**	**8,635**	**11,163**
Normalized profit	**11**	**(17)**	**42**	**8,635**	**11,163**
EPS (Bt)	12	(18)	41	2.01	2.60
Normalized EPS (Bt)	11	(17)	42	2.01	2.60

Balance Sheet					(consolidated)
Yr-end Dec (Bt m)	**2Q21**	**3Q21**	**4Q21**	**1Q22**	**2Q22**
Cash & ST investment	29,862	19,310	20,222	10,175	10,995
A/C receivable	21,274	23,706	24,910	26,172	27,466
Inventory	18,069	23,097	23,308	23,407	24,733
Other current assets	624	956	746	1,655	958
Investment	862	863	873	878	900
Fixed assets	89,185	97,349	97,181	96,466	97,111
Other assets	27,186	36,902	39,583	39,646	40,403
Total assets	**187,061**	**202,183**	**206,824**	**198,399**	**202,566**
S-T debt	29,000	26,772	32,412	22,949	22,467
A/C payable	13,190	16,115	15,261	14,931	19,765
Other current liabilities	3,128	5,593	4,303	6,861	3,168
L-T debt	11,468	22,724	22,164	21,549	15,613
Other liabilities	14,882	10,325	10,383	10,902	16,409
Minority interest	22,244	25,405	96,837	25,059	26,399
Shareholders' equity	**93,149**	**95,248**	**25,463**	**96,147**	**98,746**
Working capital	26,152	30,688	32,957	34,648	32,434
Total debt	40,468	49,496	54,576	44,498	38,080
Net debt	**10,605**	**30,186**	**34,354**	**34,323**	**27,085**

Financial Ratios					
(%)	**2Q21**	**3Q21**	**4Q21**	**1Q22**	**2Q22**
Sales growth	38.2	37.1	48.9	34.4	27.1
Operating profit growth	70.3	(1.2)	(49.3)	(23.5)	(16.3)
EBITDA growth	42.7	8.7	(12.2)	(6.5)	(1.5)
Norm profit growth	25.4	1.3	(14.1)	(23.0)	(16.7)
Norm EPS growth	25.4	1.3	(14.1)	(23.0)	(16.7)
Gross margin	21.2	17.3	12.2	17.3	17.6
Operating margin	11.4	6.7	2.7	6.4	7.5
EBITDA margin	17.9	13.5	9.3	12.7	13.9
Norm net margin	7.7	4.4	3.9	4.7	5.0
D/E (x)	0.4	0.4	0.4	0.4	0.3
Net D/E (x)	0.1	0.3	0.3	0.3	0.2
Interest coverage (x)	17.4	15.3	9.9	16.3	16.9
Interest rate	2.9	2.5	2.5	2.3	3.0
Effective tax rate	18.5	19.8	23.7	13.4	19.3
ROA	4.9	2.9	2.7	3.4	3.8
ROE	10.0	5.9	9.0	11.3	7.8

Sources: Company data, Thanachart estimates

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